



Journal of Small Business Management >

Volume 42, 2004 - [Issue 3](#)

54 Views | 8 CrossRef citations to date | 6 Altmetric

Short Articles

Public Policy and Venture Capital: The Canadian Labor-Sponsored Venture Capital Funds

Ayi Ayayi

Pages 335-345 | Published online: 25 Nov 2019

Cite this article

Sample our
Economics, Finance,
Business & Industry Journals
>> [Sign in here](#) to start your access
to the latest two volumes for 14 days

References

Citations

Metrics

Reprints & Permissions

Read this article

Share

Public Policy and Venture Capital: The Canadian Labor-Sponsored Venture Capital Funds

by Ayi Ayayi*

Introduction

One of the most significant events of the last two decades in the Canadian venture capital industry was the emergence in the early 1980s under the federal and provincial governments' legislation of labor-sponsored venture capital funds (LSVCFs). This apparently was enacted to address the lack of available venture capital and to promote investment in Canadian small and medium-sized enterprises (SMEs), whose shares are not traded publicly. Today, there are 44 LSVCFs in Canada, which collectively account for approximately half of the \$20.134 billion of assets under management by all Canadian venture capital companies. The funds raised by LSVCFs have to be invested in SMEs with total assets of under \$50 million. In addition, while at least 60 percent of funding provided to SMEs has to be in the form of common equity, the rest can be in preferred shares or in unsecured subordinated debt.

LSVCFs operate in a manner similar to open-ended mutual funds and are capi-

talized by a large number of individual shareholders. Their propensity for investing in LSVCFs is encouraged by the generous provisions of the Canadian federal and provincial tax credits offered in exchange for committing this capital for eight years to inherently risky SMEs. In this respect, the LSVCFs have received heavy subsidization for their startup costs. In addition, LSVCFs' units are registered retirement savings plan (RRSP) eligible, and generous tax credits accrue to the purchaser of the units, without reducing their adjusted cost base. Even if the front-end subsidization and the RRSP eligibility are ignored, the tax credit alone means that these funds are working in the range of 60- and 70-cent dollars, depending on the province in which the fund operates.

The objective of this article is to provide a sound analysis of the distinctive features of LSVCFs in order to examine the effectiveness of their heavy tax subsidization on the Canadian venture capital market and on the Canadian economy in attaining public policy goals. If LSVCFs'

*I thank Pekka Ilmakunnas, Smanthala Hettihewa, Marie Dowler, Nina Cole Maureen Sims, the editors, and two anonymous referees for their insightful comments. I also thank Tamer Ciftci for his research assistance. I am grateful to the participants at CESfio conference on Venture Capital, Entrepreneurship, and Public Policy (2002) and the Administrative Sciences Association of Canada (2003). I gratefully acknowledge financial support from Ryerson University. All errors are my own.

Additional information

Notes on contributors

Log in via your institution

> [Access through your institution](#)

Log in to Taylor & Francis Online

> [Log in](#)

Restore content access

> [Restore content access for purchases made as guest](#)


Purchase options *

[Save for later](#)

PDF download + Online access

- 48 hours access to article PDF & online version
- Article PDF can be downloaded
- Article PDF can be printed


EUR 48.00

 Add to
cart

Issue Purchase

- 30 days online access to complete issue
- Article PDFs can be downloaded
- Article PDFs can be printed

EUR 121.00

 Add to
cart

* Local tax will be added as applicable

People also read

Recommended articles

Cited by
8

Government venture capital research: fake science and bad public policy >

Douglas Cumming et al.
Venture Capital
Published online: 21 Mar 2019

Information for

Authors
R&D professionals
Editors
Librarians
Societies

Opportunities

Reprints and e-prints
Advertising solutions
Accelerated publication
Corporate access solutions

Open access

Overview
Open journals
Open Select
Dove Medical Press
F1000Research

Help and information

Help and contact
Newsroom
All journals
Books

Keep up to date

Register to receive personalised research and resources by email



Sign me up



Copyright © 2026 Informa UK Limited [Privacy policy](#)

[Cookies](#) [Terms & conditions](#) [Accessibility](#)

Registered in England & Wales No. 01072954
5 Howick Place | London | SW1P 1WG



Taylor & Francis
by informa